

**CALIFORNIA STATEWIDE AUTOMATED  
WELFARE SYSTEM CONSORTIUM IV,  
CALIFORNIA**

**MANAGEMENT LETTER**

**JUNE 30, 2009**



March 19, 2010

To the Board of Directors  
of the California Statewide Automated Welfare System Consortium IV

Ladies and Gentlemen:

We have audited the basic financial statements of the California Statewide Automated Welfare System Consortium IV ("the Authority") for the year ended June 30, 2009 and have issued our report thereon dated March 19, 2010. In planning and performing our audit of the basic financial statements of the Authority, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report. During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized below:

## **CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS**

### **EQUIPMENT AND REAL PROPERTY MANAGEMENT**

#### **OBSERVATION**

As a result of our audit of the Authority's capital assets, we noted the Authority wrote off the remaining book value of capital assets that were disposed of in previous fiscal periods. However, we noted the Authority did not maintain documentation to support or justify the disposal of these assets.

#### **RECOMMENDATION**

We noted significant improvement on the Authority's efforts to comply with equipment management policies and procedures. We recommend that the Authority verify that adequate supporting documentation is maintained to support the deletion or disposition of capital assets.

#### **MANAGEMENT'S RESPONSE**

The consortium will review and modify its procedures and policies over assets to ensure that asset changes affecting the consortium's financial records, whether due to additions, disposals, transfers, or losses are properly authorized and documented including those disposed of in previous fiscal periods. Consortium staff and contractors who have custodial responsibilities over assets will be made aware of those procedures and policies.

## **PROCUREMENT AND SUSPENSION AND DEBARMENT**

### **OBSERVATION**

Per the Code of Federal Regulations (CFR) 2 CFR Part 180, non-Federal entities, when entering into a covered transaction, must verify that the other party is not excluded or disqualified by (a) checking the Excluded Party List System (EPLS), (b) collecting a certification from the other party, if allowed by the Federal agency responsible for the transaction, or (c) by adding a clause or condition to the covered transaction with the other party. Through our testwork performed we noted that while none of the vendors selected were suspended or debarred the Authority did not properly document their review.

### **RECOMMENDATION**

We recommend that the Authority strengthen its existing procedures and internal controls related to the procurement process to ensure the Authority documents compliance with federal suspension and debarment compliance requirements.

### **MANAGEMENT'S RESPONSE**

The Consortium is adopting Purchasing Policies and Procedures which will require documentation of compliance with Federal Suspension and debarment compliance requirements, in accordance with CFR Part 180, non Federal entities.

## **STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS**

### **LONG TERM DEBT**

#### **RECOMMENDATION**

We recommend that the Authority strengthen its internal control procedures to ensure that at year end the proper liabilities related to the Authority are properly recorded as this will ensure that the Authority has properly recognized and reported all of its liabilities

#### **STATUS AS OF JUNE 30, 2009**

Implemented – We noted no adjustments related to the 10% holdback liability. We also noted policies and procedures were implemented

## NEW FINANCIAL REPORTING AND AUDITING STANDARDS

### INFORMATIONAL ONLY

#### GOVERNMENTAL ACCOUNTING STANDARD No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010.

#### GOVERNMENTAL ACCOUNTING STANDARD No. 53

In June 2008, The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009, with earlier application encouraged.

#### GOVERNMENTAL ACCOUNTING STANDARD No. 54

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

### STATEMENT ON AUDITING STANDARDS (SAS) NO. 115

#### COMMUNICATING INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN AN AUDIT

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standard 115, replacing SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard defines the terms *deficiency in internal control*, *significant deficiency*, and *material weakness*; provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements; and requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit. It is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

#### AMERICAN RECOVERY AND REINVESTMENT ACT – 2009

On February 13, 2009, Congress passed the American Recovery and Reinvestment Act (the Act). The Act of Congress was based largely on proposals made by President Obama and is intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The measures are nominally worth \$787 billion. The Act includes federal tax relief, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The Act also includes numerous non-economic recovery related items that were either part of longer-term plans or desired by Congress. As a result of the Act, State and Local governments can qualify for significant financial aid. This financial aid will be subjected to a high level of accountability and transparency. Grant and loan awards will be subject to Single Audit in accordance with OMB Circular A-133. Management will be subjected to significant responsibilities upon receipt of Recovery Act funds. Management should consider the following when administering the use of these funds:

- That control procedures in place over federal expenditures are appropriate, working properly, and designed to prevent unallowable expenditures.
- Whether additional controls and system requirements will be needed to ensure that Recovery Act funds are able to be separately identified and tracked.
- If applicable, whether new controls will need to be established to meet the stringent reporting requirements back to federal agencies.
- If Recovery Act funds will be passed down to subrecipients, that controls are in place to ensure appropriate subrecipient monitoring and also whether any new controls will need to be established related to new subrecipient reporting responsibilities.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Authority gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time

This report is intended solely for the information and use of management, board of directors, others within the entity, and feral awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinck, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
March 19, 2010